

## **Exhibit 14**

**From:** ECHEVARRIA Victor <veche@efg.com>  
**Sent:** Monday, March 3, 2003 12:13 PM  
**To:** CAMPANO, Sixto <SCampano@EFGCapitalMiami.COM>  
**Subject:** FW: Meeting at Fairfield Greenwich Group New York (FGG)  
**Attach:** Fairfield Memo.FGG.doc

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FYI

-----Original Message-----

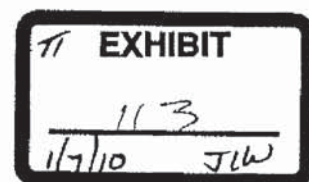
**From:** NUSSLE Isabel  
**Sent:** Friday, February 28, 2003 5:28 AM  
**To:** HOWELL Lawrence; CADUFF Markus; RANIERI Marco; ECHEVARRIA Victor  
**Subject:** Meeting at Fairfield Greenwich Group New York (FGG)

Please see attached Memo from Mats Pehrsson

Thank you

Isabel Nussle

<<...>>



Confidential  
EFG\_Cap\_E-0007758

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TO : FILE /FAIRFIELD SENTRY/DISCOVERY  
GROUP

FROM : MATS PEHRSSON

CC : LONNIE HOWELL, MARKUS CADUFF,  
MARCO RANIERI & VICTOR ECHEVARRIA

DATE : February 24, 2003

SUBJECT: Meeting at Fairfield Greenwich Group New York  
(FGG) with

- Discovery Group: Johan Sandberg and Jan Burén
- FGG: Gregory Bowes, Daniel Lipton, Jeffrey Tucker and  
John Wartman

**1. Purpose of Meeting**

- To introduce Sandberg and Burén to EFG
- To find out more about Fairfield Sentry

**2. Planned Offshore Fund (Sandberg & Burén)**

- Sandberg and Burén went through long questionnaire focusing mostly on  
Fairfield Sentry which currently captures 80% of FGG's AUMS.
- Sandberg wants to use Fairfield Sentry (50%) and 2 other of FGG Funds  
(with each 25%) as feeder funds for a new offshore fund (to be  
administered by and custodized with EFG Lux). We would split the the  
retro from FGG (25% of FGG's fees) with Sandberg on a ratio yet to be  
agreed.

**3. Fairfield Sentry (F.S.)**

- F.S. is a hedge fund with a comparatively conservative equity-based  
strategy and with a moderate equity-long bias. The fund has some USD 4  
bln in assets and a 15-year live track-record.
- F.S., typically, takes a long position in 30-40 of the leading S&P 100  
stocks (which as a group should have a 95% correlation with the index)  
and simultaneously hedges this long position fully (for the same USD  
amount) by buying S&P 100 Puts that are 2-3% out-of-the-money and

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expire after one month. These positions are normally taken when an up-move in US equities is expected. If not, the fund is 100% in cash (T-Bills). Shortly after taking the equity and put positions, S&P 100 2-3% out-of-the-money calls with the same expiry as the Puts are sold for an underlying amount corresponding to the USD-amount of the aggregate equity long position. Frequently, the calls are not done at the same time as the first 2 transactions but with a certain time delay to enhance the return in an upmoving equity market. In 2001 and 2002, F.S. was in cash 50% of the time, on average, on a month-to-month basis.

- F.S. is managed by Bernard L. Madoff Securities LLC, New York (=MS). Established in 1960 by Bernard Madoff, MS is a US Broker Dealer and one of the largest market-makers in US equities (S&P500 & 200 NASDAQ Stocks) with some USD 450 million in capital. The firm employs some 250 staff including Bernard's brother, Peter Madoff who joined in 1970, and other family members. It is located on Third Avenue, a few blocks away from FGG.
- The creation of a London affiliate, Madoff Securities International Ltd., in 1983 has enabled the firm to develop an increasingly important position in the global securities marketplace. Madoff International has become one of the largest dealers in listed and Nasdaq US equities in London.
- Bernie Madoff (61), founder and owner of Madoff Securities, started his equity strategy 35 years ago, initially for US high net worth individuals. The key to his success and the very stable performance of F.S., most likely lies in his market making function: FGG said "off-the-record" – that MS is "cheating" and that there is a "hole in the " Chinese wall" which is supposed to separate the market making from the fund managing function." Due to MS' role as a leading market maker, the firms sees the whole market and where it is heading (it sees the floors, stop-loss levels and other limits and therewith related volumes). If an upmove is imminent or a positive bias is being formed, they are the first to see it (and can be the first to act on it, as well).
- MS have often been criticized for front-running and for subsidizing Fairfield Sentry. According to FGG, front-running would be detected by the firm's auditor and subsidizing is not a reality as Madoff Securities is contractually bound to a market price +/- 4 cents per share formula with FGG.
- MS has one of the most sophisticated disaster recovery facilities found anywhere in the securities industry. In addition to its offices in Manhattan, MS maintains a fully equipped and staffed facility located near LaGuardia Airport. This office duplicates all of the features of the primary MS offices. MS' disaster recovery facility is not just an alternative trading room, but rather a full-fledged office which is equipped to receive and transact orders and to handle the clearing and settlement process as well. Under the supervision of a facilities manager, this unique on-line facility is tested continuously to ensure that it is prepared to take over the firm's



operations if any kind of disaster were to affect the Manhattan office. Members of the firm's staff are rotated through the facility and regularly perform their work from it. Thus, there is always staff on hand in case disaster strikes at the firm's main office. The disaster recovery facility is on a different electric power grid than the main office, and it is served by a different telephone central office. The facility also has its own electrical generator.

**4. Other important activities of Bernard Madoff and Peter Madoff**

Bernard L. Madoff has been a major figure in the National Association of Dealers (NASD), the major self-regulatory organization for US Broker/Dealer firms. This firm was one of the five Broker/Dealers most closely involved in developing the NASDAQ Stock Market. He has been chairman of the board of directors of the NASDAQ Stock Market as well as a member of the board of governors of the NASD and a member of numerous NASD committees. He has also served as a member of the board of directors of the Securities Industry Association.

Reflecting the growing international involvement of the firm, when MS opened a London office in 1983, it became one of the first US members of the London Stock Exchange. Bernard Madoff was also a founding member of the board of directors of the International Securities Clearing Corporation in London.

Peter B. Madoff has also been deeply involved in the NASD and other financial services regulatory organizations. He has served as vice chairman of the NASD, a member of its board of governors, and chairman of its New York region. He also has been actively involved in the NASDAQ Stock Market as a member of its board of governors and its executive committee and as chairman of its trading committee. He also has been president of the Security Traders Association of New York.

Bernard and Peter Madoff have both played instrumental roles in the development of the fully computerized Cincinnati Stock Exchange. Peter Madoff has been a member of its board of governors and has served on its executive committee. They have helped make the Cincinnati Exchange the fastest growing regional stock exchange in the US.

These positions of leadership not only indicate the deep interest MS has shown in the industry, they also reflect the respect the firm and its key individuals have achieved in the financial community.

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**5. The black-box problem at Fairfield Sentry  
(and how FGG is handling it)**

**The Problem :**

1. MS is investment advisor/manager and custodian and prime broker for the fund resulting in reduced transparency.
2. Fairfield's auditors (PWCL) rely largely on information provided by MS' auditors which is not one of the leading names.

**Comments:**

According to FGG, PWLC does also continuously perform random checks of MS trades done for Fairfield Sentry, directly at the source (not relying on MS auditors' input); i.e. at the premises of MS. If this applies, the second problem may be less of a problem. MP to check this with PWCL.

In addition, Jeffrey Tucker of FGG, who allegedly has known B. Madoff since 10(-15) years, has once spent about a week with MS to check that trades and positions were all a match between FS, MS and the DTC (clearing agent level). The result was fully satisfactory to FGG.

During my visit at FGG, I was shown account statements of FS' account with MS. It looked normal. I was not allowed to keep any copy.

**6. Visit to Fischer Francis Trees L. Watts, Inc.**

- Met with Stewart Russell (MD) and Blair Keller (Manager of Alternative Strategies) of this fixed-income manager which is partly controlled by BNP (40% control 60% money?).
- Fund is conservatively managed relying on a highly diversified exposure in a variety of global markets. The Fund takes long and short positions in investment grade paper, government bonds and asset-backed bonds.
- Procedures are all very transparent. Would be one of Sandberg's FGG funds.

**7. Summary**

Yes, Fairfield Sentry is and remains something of black box because of the concentration of all major functions with SM.

Yes, the black box structure undoubtedly also has a potential to benefit FS (quick reaction to emerging market changes).

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Yes, MS role as major market-maker in exactly those equities that FS is invested in is a clear benefit to Fairfield Sentry, as it facilitates the timing aspect of each investment made by MS (MS "sees the entire market"). This could also explain much or all of Fairfield's stable and good track record.

Yes, both FGG and the auditors of FS have performed (and the auditors continue to perform) random checks with MS directly, which lessens the dependency on MS own auditors somewhat.